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**SF 464** – Biodiesel Content Requirement (LSB2135SZ.2)

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Fiscal Note Version – Revised

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**Description**

**Senate File 464** eliminates the current biodiesel blended fuel tax credit effective July 1, 2009. The Bill also requires all diesel fuel sold in the State to contain a minimum percentage of biodiesel. Exceptions to the requirement are specified.

**Background**

Iowa's biodiesel blended fuel tax credit was created in House File 2754 (Renewable Fuels Act of 2006). The credit is available to fuel retailers selling a specified percentage of biodiesel gallons and is equal to three cents per qualified gallon sold. The credit is refundable and sunsets at the end of tax year 2011.

**Assumptions**

- The Department of Revenue estimates biodiesel tax credit redemptions will equal the following amounts under current law:
  - FY 2010 – \$4.6 million
  - FY 2011 – \$5.0 million
  - FY 2012 – \$5.5 million
- The biodiesel blended fuel credit contains a threshold level of biodiesel sales based on total diesel gallons sold during a calendar year (50.0% or more biodiesel gallons compared to total diesel gallons sold at a location). Removing the credit effective July 1, 2009, will eliminate credit availability in the middle of the year. It is assumed the credit will be allowed for all gallons sold up to July 1, 2009, but the 50.0% threshold percentage of biodiesel gallons to diesel gallons will still be required and applied to the full calendar year.
- Biodiesel sales gallons sold B-2 or greater from January 1, 2009, through June 30, 2009, will equal 125.0 million gallons. Due to the Bill's requirement that all gallons sold starting July 1, 2009, contain at least 5.0% biodiesel, more retail outlets will reach the 50.0% annual sales threshold needed to qualify for the current biodiesel tax credit than would be the case without the new B-5 requirement. This will cause a greater percentage of gallons sold prior to July 1, 2009, to qualify for the existing tax credit.
- Requiring biodiesel content in all diesel gallons sold in the state will increase the percentage of retail locations qualifying for the ethanol promotion tax credit.

**Fiscal Impact**

Removing the biodiesel tax credit effective July 1, 2009, will reduce biodiesel tax credit redemptions and increase net General Fund revenue by the amounts listed in the right-hand column of the following table.

### **Tax Credit Redemptions and Net General Fund Impact**

Revised Estimate for SF 464

|         | Total B-2 and Above<br>Tax Credits Claimed<br>Under Proposed<br>Law | Dept. of Revenue<br>Estimate of Tax<br>Credits Claimed<br>Under Current Law | Decrease in Tax<br>Credits Claimed<br>= Positive<br>General Fund<br>Impact |
|---------|---|---|--|
| FY 2010 | \$3,225,000   | \$4,600,000   | \$1,375,000  |
| FY 2011 | 0   | 5,000,000   | \$5,000,000  |
| FY 2012 | 0   | 5,500,000   | \$5,500,000  |

In addition to the impact in the table above, Section 422.11N, Code of Iowa, provides an ethanol promotion tax credit. Section 422.11N(4)(a) provides that as part of the calculation of this ethanol credit, gallons of biodiesel fuel sold at a location are included in determining if the retail location qualifies for the ethanol tax credit. Requiring diesel fuel sold in the State to contain at least 5.0% biodiesel will increase biodiesel gallons and potentially increase the dollar volume of ethanol promotion tax credits issued in FY 2010 and beyond.

The ethanol promotion tax credit was first available in calendar year 2009. Qualifications for earning the credit include dispensing a specified percentage of ethanol and biodiesel gallons compared to gasoline gallons in a year. The threshold begins at 6.0% for small retailers and 10.0% for larger retailers. The percentage requirement escalates to 25.0% by 2019.

The actual ethanol promotion tax credit is calculated only on ethanol gallons, so requiring biodiesel content will impact whether a retail location qualifies for the credit, but not the number of fuel gallons for which the credit is earned. The impact of the biodiesel percentage requirement on the ethanol promotion tax credit is expected to be an increase in the dollar volume of ethanol promotion tax credits earned and redeemed and will reduce net General Fund revenue. However, insufficient information is currently available to estimate the impact.

Both the biodiesel blended fuel tax credit and the ethanol promotion tax credit are refundable, so changes to the credits do not impact the local option income surtax for schools.

#### **Sources**

Department of Revenue Biofuel Retailers' Tax Credit Study (January 2009)  
Legislative Services Agency Analysis

/s/ Holly M. Lyons

April 13, 2009

The fiscal note for this bill was prepared pursuant to [Joint Rule 17](#) and the correctional and minority impact statements were prepared pursuant to [Section 2.56, Code of Iowa](#). Data used in developing this fiscal note, including correctional and minority impact information, is available from the Fiscal Services Division of the Legislative Services Agency upon request.